

INFORMATION REPORT INFORMATION REPORT

CENTRAL INTELLIGENCE AGENCY

This material contains information affecting the National Defense of the United States within the meaning of the Espionage Laws, Title 18, U.S.C. Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CONFIDENTIAL/NOFORN

COUNTRY	East Germany	REPORT		
SUBJECT	East German Financial Planning and the Ministry for Machine Construction	DATE DISTR.	6 September 1955	25X1
DATE OF INFO.		NO. OF PAGES	18	
PLACE ACQUIRED		REQUIREMENT		25X1
DATE ACQUIRED		REFERENCES	This is UNEVALUATED Information	25X1

SOURCE EVALUATIONS ARE DEFINITIVE. APPRAISAL OF CONTENT IS TENTATIVE.

The following report is a general survey of the East German Ministry for Machine Construction, including information on the two new ministries which have supplanted this Ministry, and East German financial planning in 1954.

25X1

CONFIDENTIAL/NOFORN

STATE	#X	ARMY	#X	NAVY	#X	AIR	#X	FBI	#X	AEC	#X	ORR	#X	E	#X
(Note: Washington distribution indicated by "X"; Field distribution by "#".)															

25X1

INFORMATION REPORT INFORMATION REPORT

25X1

CONFIDENTIAL/NOFORN

- 2 -

TABLE OF CONTENTS

	Page
A. Ministries Created from the Old Ministry for Machine Construction	3
1. Ministry for Heavy Machine Building	3
2. Ministry for General Machine Building	3
B. Ministry Location and Personalities	4
C. Plans for the Control of the East German Economy	5
D. The 1954 Planning Process in the Ministry for Machine Construction	6
E. General Information Related to Planning	11
1. Soviet Advisors Associated with the Ministry for Machine Construction	11
2. Planning for the Deutsche Handels-Zentralen (German Trade Centers)	12
3. Export Plans under the Central Department for Sales and Exports	12
4. Subsidies	13
5. Hidden Reparations	13
a. Price Differentials	13
6. Underfulfillment of 1954 Trade Plan	14
7. Transportation	14
8. Shipbuilding: The Problem of Worker Lay-offs	14
F. Interzonal and Intersector Controls	15
G. Future Planning within Ministry for Machine Construction	15
1. Investments	15
2. New Control Form for Financial Reporting	16
3. Training of Production Workers	16
4. Changes in Basic Planning System	16
H. Economic Stimulants	16
I. Questions Related to Other Governmental Organizations	17
J. HV-18 (Main Administration 18), Pirna	17

CONFIDENTIAL/NOFORN

CONFIDENTIAL/NOFORN

25X1

- 3 -

A. Ministries Created from the Old Ministry for Machine Construction**1. Ministry for Heavy Machine Building**

- a. Minister Erich Apel
- b. State Secretary Wilhelm Zieschonis (formerly head of People's Shipyard Stralsund).
- c. Main Administrations
 - (1) Equipment for Heavy Industry
 - (2) Equipment for Chemical, Ceramics and Food Industry
 - (3) Equipment for Polygraphic and Textile Industry
 - (4) Machine Tool Industry
 - (5) Foundries
 - (6) Energy and Power Machine Building (N.B.: This includes the Main Administration for Boilers and Turbines and the Main Administration for Energy and Power Machines of the old Ministry for Machine Construction)
 - (7) Electrical Machine Building
 - (8) Cable and Apparatus Building
 - (9) Ship Building Industry

2. Ministry for General Machine Building

- a. Minister Helmut Wunderlich
- b. State Secretary Hermann Grosse (formerly Chief, Central Department for Sales and Exports in old Ministry Machine Construction.)
- c. Main Administrations
 - (1) Auto and Tractor Building
 - (2) Locomotive and Railroad Car Building
 - (3) Farm Machinery
 - (4) Radio and Telecommunications Industry
 - (5) Precision Mechanics and Optics
 - (6) Light Machine Building
 - (7) Iron, Sheet Metal and Metal Products

In addition to the above Main Administrations, each one of which has an identical structure as follows:

- (a) Chief
- (b) First Deputy and Technical Head of Main Administration
- (c) Second Deputy and Administrative Head of Main Administration
- (d) Cadre Department
- (e) Finance Department

CONFIDENTIAL/NOFORN

- 4 -

25X1

- (f) Sales Department
- (g) Material Supply Department
- (h) Techniques Administration Department
- (i) Production Administration Department
- (j) Research and Development Department
- (k) Planning Department

There is a Central Administration for each of the Ministries. These administrations are composed of the following Central and Main Departments:

- (a) Main Department Planning
- (b) Main Department Material Supply
- (c) Main Department Sales and Exports
- (d) Main Department Cadre
- (e) Main Department Schooling
- (f) Main Department Research and Technology
- (g) Main Department Production
- (h) Central Department Accounting
- (i) Central Department General Administration
- (j) Main Department Finance

[redacted] the new Ministry for Heavy Machine Building had gotten the better men in the Main and Central Departments on the split-up.

25X1

B.

25X1

CONFIDENTIAL/NOFORN

25X1

CONFIDENTIAL/NOFORN

- 5 -

25X1

C. Plans for the Control of the East German Economy

1. Within the Soviet Zone of Germany, there are two controlling plans for the industrial sectors. The first of these is figured in "Werkabgabepreisen" (Factory Sales Prices) and is called the "Staatshaushaltsplan" (State Budget). The other, which corresponds to the first, is figured in "Messwerten" (Standard Prices) and is called the "Volkswirtschaftsplan" (National Economic Plan). The State Budget is made up by the Ministry of Finance, whereas the National Economic Plan is made by the State Planning Commission, and is really the basis for the former since the Ministry of Finance gets all of the production information from the National Economic Plan, then applies to this information ratios relating "Factory Sales Prices" to "Bruttoproduktion" (Gross Production), expressed in "Standard Prices."
2. Normally, the National Economic Plan is based on information which is originally prepared by factories, consolidated by the Ministry, and forwarded for readjustments.
3. The total figures shown in the budget should be distinguished from GNP. (sic)⁶ GNP is a measure of the total output of the economy. The national budget, on the other hand, is a kind of accounting of the income and expenditures of the state, which does not, for example, embrace the operations of the private sector of the economy, except as it includes receipts from private firms in the form of taxes. Nor does the budget indicate the gross income and expenditures of the economic ministries. The budget does, however, reflect the close ties between socialized enterprise and the state. On the income side, the budget includes a) amortization accounts, b) profits of state enterprises, c) taxes received, and d) amounts saved due to industrial Rationalization. On the expenditure side, the state budget includes a) subsidies to cover planned losses, b) cultural items, c) investments in state-owned enterprises, and d) the usual government outlays. Total income of the state, however, is in no way to be considered equal to the gross national product. GNP is difficult to ascertain. The gross production figures (Bruttoproduktion in Messwerten) are not reliable because of duplication in counting as well as the outdated nature of the 1954 prices on which the system is based. Percentage gains in total industrial production reported publicly each year, are, however, a rough indicator of the expansion of the industrial segment of the economy.

4. As in World War II, East German prices are controlled. Nevertheless, inflationary pressures exist because money in the hands of the people exceeds the amount of goods available for purchase. Farmers, in particular, have hoarded money, and black markets have arisen in sugar and other commodities. Another source of inflationary pressure comes from material shortages which have led to production bottlenecks. This slows down the completion of goods, ties up money in incompleting inventories, impedes the circulation of currency, and forces the banks to extend credits for longer periods than planned. In consequence, pressure develops to increase the amount of money in circulation. Although the banks have taken measures to force firms to pay their bills more quickly,

25X1

When rumors of currency inflation have been spread, the SED has talked them down as enemy propaganda.

25X1

Purchasing power has tended to accumulate in the hands of the people because production has not been geared to public demand. The people would like to buy cars, motorcycles, electrical products, and other hard goods, all of which are in short supply. Production of out-dated hardware, such as outmoded knives and forks, continues, despite consumer buying resistance. There is little production of up-to-date, efficient goods or attention to modern design. Designers have little incentive to do creative work because their firms are under pressure to increase profits and therefore hesitate to experiment with new products.

D. The 1954 Planning Process in the Ministry for Machine Construction

1. In August through September 1953, the then separate Ministries of (1) Heavy Machine Building (2) Transport Machine Building and (3) General Machine Building received "Kontrollziffern" (Control Numbers) from the State Planning Commission and were ordered to start the factories within their various jurisdictions on plans for 1954. Special forms were provided for the planning work by the plants. These forms had been used for the first time in 1952 (for 1953 planning), and the result of the factory's labors was to be a set of so-called "Projektpläne" (Projected Plans).
2. This system was, for the 1954 planning, not followed by the plants. They refused to use the forms (though they did make tentative proposals as to the volume of business which they expected to be able to fulfill during 1954).
3. On the special forms which would have been normally used, the factories would have been obliged to calculate all of their financial data from the Control Numbers which are related to physical plans (such as the production plan in terms of items or Standard Values; the labor productivity plan, etc.). Thus, for example, each factory would have had to make a calculation of that component of "Selbstkostensenkung" (Lowering of Production Costs) which refers to wages and salaries as follows:

Given: Control Number for Increase in Average Wages, 103%
Control Number for Increase in Labor Productivity, 107%
N.B.: The above figures are examples only.

Solution: $\frac{103}{107}$ equals 0.926

Subtracting from 1.000 and multiplying by 100 equals 3.74.

Thus, the lowering of production costs which will result from an increase in wages of 3% and an increase in productivity of 7% is 3.74%.

Obviously, the other factors contributory to a lowering of production costs would have to be calculated by a similarly laborious method, more complex in many cases. Further, this must be done for essentially every part of the producing element of the Ministry.

This calculation is, of course, correct, but if one takes into consideration the fact that this exactness was requested at a time when the main product positions (which indicate the total production of given "control products" of which there were, at that time, 200 but now reduced to 60) and all other basic figures were still variable or unknown, it is obviously quite worthless.

CONFIDENTIAL/NOFORN

CONFIDENTIAL/NOFORN

- 7 -

25X1

[redacted] these Project Plans have at no time been of any use. They had to be made up on individual products at a time when there were contracts for the sale of only 5 to 10 percent of the production program. Thus, the possibility for specification of the actual production pattern was impossible. This is just one example of the pseudo economies practiced in the DDR. Every so often, certain sectors of the government start a campaign for the improvement of the ratio between non-productive and productive personnel (the ratio is particularly bad in the machine-building factories, averaging 1:2.5 in 1954) while other sectors of the government order the factories to do completely useless administrative work for which the example above stands as typical of a far greater number. [redacted] a calculation of the money lost on the formulation of the Project Plans and, considering only the salaries involved, came up with an amount of 2 million DME for the entire sector of Machine-building enterprises. In addition to this sum, there would be substantial general costs of the firms, to say nothing of travel expenses, since each plant had to deliver its plans by a courier.

25X1

25X1

4. In December 1953, a meeting of the "Zentrale Kaufmaennische Leiter" (Chiefs of the Central Marketing Departments) of the three Ministries was held in the Ministry of Finance. Rumpff presided at this meeting and at this time, the three Ministries were given a new and final Gross Production figure (which was less than that proposed by the factories) and a new set of main figures for the labor plan, these last being harder to meet than those which were developed by the factories in their proposals. On the basis of the figures given out in this meeting, the corresponding "Warenproduktion" (Goods Production) was subsequently calculated by applying the ratio between Gross Production (Brutto) and Goods Production (Waren) which had obtained in 1953. Further, the basis for a calculation of Production Cost Lowering (Selbstkostensenkung) was given, again based on 1953 experience. From all of these figures, a draft of the 1954 Budget was made and this, in January of 1954, was accepted as the final Budget without any alterations.
5. The three Ministries protested against this treatment. Furthermore, each of the three Ministers were asked by the heads of their own Central Financial Departments not to sign this budget, since it could be seen that it contained conditions too far removed from what was possible for the Ministries. The budget was signed by the Ministers, however, during January 1954.
6. Planning for the 18 former SAG plants had been carried out by the Ministry of Finance prior to January 1954; though this was against their wishes, the three Ministries to which the plants were to be assigned did not receive any information on the status of the plants on which to do their own planning, but could only "acknowledge" the plans drawn up by the Ministry of Finance. This Ministry had, in turn, gotten all of its figures on 1953 operations in the plants from the three Soviet Administrations concerned, namely AMO, Transmasch and Kabel.

The 1954 projected production of these 18 firms amounted to roughly 1.5 billion DME (Warenproduktion) which was to yield a profit of approximately 270 million DME. Later in 1954 it became obvious that the basis for calculation used by the Ministry of Finance was wrong: the actual profit made by these firms in 1954 was lower than the above figure by 35 million DME.

It also became known to the Ministry during 1954 that the Soviets had ordered the plants to overvalue the amount of material, semi-finished goods and finished products held as inventory at the end of 1953. In the case of some of the firms, devaluation of goods which had been due for some time was forbidden. This means that the Soviets got a higher 1953 profit than had actually been made (actually a kind of hidden reparations) and starting from this unrealistic profit in 1953, a likewise unrealistic profit was calculated for 1954.

The former SAG plants got into additional trouble after they were returned to East German ownership. Up to this point, the SAG's had been in a favorable materials position and were given priority of materials sent by the USSR or by Soviet-owned steel mills (e.g. Hettstedt) in East Germany; they had been given preference as to their sales; they got credit through the

CONFIDENTIAL/NOFORN

25X1

- 8 -

Soviet-controlled Garantie und Kreditbank in a magnanimous way; they were granted higher ratios of profit in new prices, this ratio amounting to 13.5 percent whereas the highest that other East German firms were allowed was 6 percent (this ratio expresses the allowed planned profit to the production cost of an item.).

As to the unrealistic profit of 35 million DME, the Ministry for Machine Construction drafted a bill requesting the repayment of a sum equal to the amount by which goods had been falsely devalued. Payment was requested of the Ministry of Finance, but the bill was rejected in the Council of Ministers which declared that this was not a hidden loss originating in the time of the Soviet administration but was attributable to poor work in 1954. This occasion may have contributed to a possible disfavor of the Politburo toward Heinrich Rau, then Minister.

7. After their acceptance, the plans for each of the three Ministries which were later amalgamated into the Ministry for Machine Construction were added to the plan for the 18 former SAG enterprises and thereby transformed into one plan. At this point, the Central Department for Finances and Prices of the Ministry for Machine Construction broke this plan down into seventeen parts corresponding to the Main Administrations of the Ministry. These parts were then split up for the plants. This process also occurred in January 1954 and involved all of the plans-- financial, production, material, labor, etc. Thus, at the level of the Ministry and Main Administration, all of the previous work devoted to making up the 1954 plan was cancelled and new plant plans had to be synthesized.
8. The reapproval of the plant plans, their discussion in the Ministry, their approval or rejection and repeated elaborations lasted nearly half a year, until May or June 1954. The non-financial parts, since they could be calculated much more readily, were done at an earlier time (April).
9. The result of the entire planning in early 1954 was a highly unusual situation which is described below:
 - a. The plants reported in their non-financial plans an additional Gross Production expressed in Standard Prices of between 200 and 300 million DME. (Additional means "in addition to what they were told by their Main Administration to plan"). This surplus was called the "Zusatzplan" (Additional Plan) but was an unofficial term used only in the Ministry. The factory managers, of course, were producing for a considerable time under this expanded plan and were not aware of any differences between it and the official plans.

(In connection with the above amount in Standard Prices, on applying the ratio of Bruttoproduktion in Messwerten and Warenproduktion in Abgabepreisen, one gets a corresponding "additional" Warenproduktion figure of roughly 350 million. The sum of the plant plans, however, contained an additional Warenproduktion figure of more than 400 million.)
 - b. The question may be asked why the factories planned a high production and why they planned even higher financial plans. The answer to this question is also worthy of detailed treatment.

First of all, the managers of plants, said, in essence, that the situation on the market, the available orders of their customers, and other considerations allowed them to thus plan. Further, they stated that they would not need any additional materials for this plan. These statements were false. Of course, there were several factories which were able to sell more than they were permitted according to their share of the split-up Volkswirtschaftsplan, but on the whole the factories did not have more contacts with buyers than for 60 to 70 percent of the year's production by April 1954. The SAG plants had even less, about 30 to 40 percent. Neither did the plant managers describe the materials situation correctly, and the result was a constantly growing gap between planned material and supplied material as the year went on. By the end of the first quarter of 1954, this gap had already widened to the point where it caused a considerable underfulfillment of the Volkswirtschaftsplan (which was lower for the first quarter than for succeeding quarters).³

CONFIDENTIAL/NOFORN

- 9 -

25X1

c. The real reason for the existence of the Additional Plan was the inability of a large number of factories to fulfill the key planning figure "Arbeitskraeftezahl" (Number of workers). According to the relatively high increase in productivity which had been thrust upon them (about 7 percent for 1954), many machine building plants would have been compelled to release workers if they had actually planned a production corresponding to their share of the Volkswirtschaftsplan. This is true even of factories for which the planned average employment figure 1954 was higher than the planned average for 1953. Also there were factories which got a higher increase of productivity than production, hence would have to reduce the number of laborers to balance the two. Still another group of plants had a reduced production, forcing the same balancing process as that just above--laborers would have to be laid off to balance productivity against production. Such a situation prevailed in the Main Administration of Equipment for Heavy Industry. Finally there is a group of plants which planned higher production in order to get out of labor trouble: these plants under the original plan had not had to release workers at all because of a relatively high increase in planned production, because of a low increase in productivity planned, or because the low number of workers at the end of 1953, compared with the average number for 1953, made it possible during 1954 to retain at least that end-of-year number. These were the plants which underfulfilled the production or productivity plans during the first quarter of 1954 and who, to recoup, and finally fulfill the productivity plan, had to plan even higher production. Cases in this last group were especially numerous in the Production Area Heavy Machine Building; cases of the sort were so numerous, in fact, that the Additional Plan of this part of the Ministry amounted to more than 50 percent of the Additional Plan of the entire Ministry.

d. The reasons for the difference between the Additional Plan of the financial plan and the Additional Plan of the production plan are also clear. It is first necessary to be aware of the fact that a plant manager, faced with a labor surplus, is in a desperate situation. Orders include a proviso that they must meet the productivity plan, as above, and, further, they must balance productivity multiplied by the number of workers with the planned production. At the same time, a plant manager is bound by a law which states that he may not release a worker unless there is an equivalent position available for the worker. Under no circumstances can the manager simply let a worker go, hoping that he will find another job, or will be forced to gravitate into agriculture or the People's Police or other less desirable occupations. If he does so, he will be in grave trouble with the SED. Thus, of the two choices (both illegal) which face them, plant managers in 1954 selected the one which did not force them to lay off workers: to meet productivity planned, they increased the plan for production. This of course increased the "Selbstkostensenkung" and therefore the increase in "Rentabilitaet" (favorable ratio of production cost to profit) was greater than the increase specified in plan.

The fact that this was sure to happen was well known to the State Planning Commission, but this body had deliberately cast off its own rules. [redacted] asked a higher official of the State Planning Commission why they had put such imbalances in the Plan, and he answered: "A labor plan which is too unrealistically high may induce plant managers to release workers even when no other job is available--under such a condition, he can plead that the labor plan was too high and therefore use it to show his own blamelessness. On the other hand, if the profit plan is too high, the manager may be forced to take the same steps, but he cannot now free himself from responsibility for the release of workers for although the financial plan ordered the plant manager to reduce costs drastically, it did not order him to reduce labor costs so drastically."⁴

Because of the greater severity of the financial plan the factories planned an even high Additional Plan in this sector of their planning.

10. Because of the necessity to get more capital (Umlaufmittelverfuehrungen) to finance the Additional Plan (up to this point, the only funds which were available were those originally scheduled in the much lower National Economic Plan) and because of the fact that, in spite of the higher production

- 10 -

in the plant plans, not even the entire profit as stated in the Budget was planned in these new plant plans, the Council of Ministers had to be asked to change the Budget. The Ministry of Finance, which had to sign the draft of the bill, requested the approval of the State Planning Commission. This body gave its approval to the bill, but with four provisions:

- a. No additional material be requested.
- b. No changes were to be made in the proportions of the production pattern in favor of capital goods.
- c. There were to be no provisions in the new plan which would endanger the program for "Massenbedarfsgüter" (Consumer Goods).
- d. There was to be no additional demand for financial means for investments on the part of buyers.

The second and third provisions could not be fulfilled. For the most part, the additional plan originated in the capital goods industry (see Para. 9. c., above) and the fulfillment of the Consumer's Goods plan was already so bad that any drain on the available material supply towards any other effort had no chance of being permitted. (It was commonly held, probably falsely, that the consumer goods production was poor because of lack of materials; the critical factors were probably the lack of interest and initiative on the part of the factories as well as the bureaucratic handling of the program from above.) Minister Rau therefore decided to renounce the approval of the State Planning Commission and to bring in the bill without approval of the Council of Ministers. This he did while he was serving as president of the Praesidium of that body, and he did get the bill through. This happened on the 6th or 7th of June 1954.

11. Before the alteration of the Budget became effective, however, the impracticality of the plan of the Ministry for Machine Construction and of other ministries became so obvious (especially with regard to the Material Plan) that the State Planning Commission applied to, and got from, the Politburo permission for a new round of planning.
12. By this alteration of the original National Economic Plan by the end of June 1954 the individual quotas of the factories were considerably altered. Reputedly, this last plan was figured out in such a way that the individual factory plans would achieve the maximum degree of efficiency. Thus, production of items for which materials could obviously not be obtained were dropped from the factory schedules, whereas other products for which the materials were available were added. All this was to no avail: the plants still could not balance the given plans for product, productivity, profit and labor. Again the factories felt compelled to operate according to an Additional Plan, but the goals were somewhat altered from the original Additional Plan which had been made up in late 1953. At that time, they had planned extra production to the amount of something over 400 million DME (Warenproduktion zu Abgabepreisen), whereas they now amounted to 11,390 million DME. The profit, however, expressed in absolute figures, was to increase to the figure originally scheduled in the Budget, or 1,200 million DME. In October, when the first round of planning was started, the Main Administrations within the Ministry had been able only to "persuade" their plants that a profit of 1,170 million DME could be made, thus leaving a gap of 30 million DME between what was planned and what could be realized. These 30 million extra marks were imposed on the Main Administrations by the Central Department Finances. Now, in this last revision, the Main Administrations were so fed up with the numerical humbug that they did not attempt to split up this 30 million DME gap for the factories.
13. For financial plans, this lack of a firm plan does not matter too greatly since all factories have to turn over to the State any profits which they actually accumulate. The only real disadvantage to them comes in considering the "Direktorfonds" (Director's Funds); since payments into

CONFIDENTIAL/NOFORN

the Director Funds are based on fulfillment of plan, underfulfillment means at least a cutback (or no contribution) to the premium fund for managerial workers. In addition, however, factories working at a loss only get subsidies to the extent stated in the plan--any losses surpassing these amounts form a gap in the plant balance sheet and remain a disturbing factor in the money circulation plan. A more disturbing feature to the national economy, however, was the far larger gap that existed because the Additional Plan of the plants, under which they were producing, was not financed to the extent of 400 million DME. Thus, (after all revenues were in) the total deficit of the economy was 100 million DME. This rather small sum might lead one to conclude that there was, in fact, no lack of capital at all, but the capital does not finance output but, rather, the things used for production. 25X1
Factories had the so-called "Planbestaende" (planned inventory) of material, semi-finished and finished goods and, in fact, something on the order of 300 to 500 million DME surplus in this category. This points up the unrealistic relationships within the various plans.

25X1

CONFIDENTIAL/NOFORN

- 12 -

25X1

2. Planning for the Deutsche Handels-Zentralen (German Trade Centers)

a. Planning for the DHZ's is done by the Ministry for Machine Construction. The DHZ's are subordinate to the Central Department Sales and Exports, and the head of the department at the time the source was in the Ministry was Hermann Grosse who is Staatssekretär (State Secretary) in the Ministry for Machine Construction. The only plans for the DHZ's which are not made up in his department are the financial plans, in particular, the "Kassenplan" (Cash Plan--that plan which regulates the inflow and outflow of the state money). These plans are made in the Central Department Finances and Prices.

b. [redacted] there are four DHZ's, each of which has responsibility only in East Germany. It never deals in exports or imports of any kind. These four DHZ's are the following:

25X1

- (1) General Machine Building
- (2) Electrotechnical
- (3) Fine Mechanics and Optics
- (4) "Staatliches Vermittlungskontor fuer Metallreserven" (State Distribution Control Center for Metal Reserves).

c. The fourth DHZ above only deals with goods already made and available for sale. Its particular specialty is the goods in "Ueberplanbestände" (supplies for the manufacture of articles over and above the materials actually required). These supplies could include raw materials, semi-finished and finished goods, or other assets, such as old machine tools which are not needed by a given plant. Thus, the actual specialty of the DHZ is reduced to redistributing the material factors of production to places which need them.

25X1

d. The DHZ has, on occasion, even tried to auction off materials which it could not otherwise dispose of. [redacted] this happened at least twice in the past four years; the auctions on these two occasions were held in Leipzig.

25X1

e. This DHZ has several warehouses, [redacted]

3. Export Plans under Central Department for Sales and Exports

25X1

a. In the Central Department of Sales and Exports, Ministry for Machine Construction, export plans are broken down three ways:

- (1) By Main Administration manufacturing product
- (2) According to country of destination
- (3) According to "Special Program".

- 13 -

Within the last category of breakdown, three special programs:

- (1) Kuehlzuege (Refrigerator Trains)
- (2) Walzstrasse (Rolling Mill Trains)
- (3) Power Machines

Responsibility for these special (export) programs is delegated to various Main Administration chiefs. Thus (before the split-up of the Ministry) Apel was in charge of the special program for power machinery, the chief of the Main Administration Locomotive and Car Construction was in charge of the refrigerator trains (actually, refrigerator-car trains) special program, and the chief of the Main Administration for Heavy Machinery was in charge of the rolling mill train program. Each of these people, in seeing to it that the special program was fulfilled, could and did step across administrative lines to see that the needed materials and supplies from other sectors of the Ministry were being produced on schedule. The person in charge of these special programs has authority to deal directly with any plant involved in the program.

- b. Helmut Wunderlich was in charge of a group known as the "Kampfstab fuer Export" (Action Staff for Exports) which exercised overall control of the export program.

- c. Shipbuilding, in which the Chief of the responsible Main Administration has always had the power to deal with supplying firms, is not considered a "Special Program".

4. Subsidies

- a. [redacted] the DIA's purchase their goods for export from the individual industrial enterprises at fixed prices based on average industrial costs computed at the time that the production of a particular commodity was first introduced into the economy. (These prices are sometimes later revised to meet changing costs, but often remain out of line with the current situation for long periods.) The DIA's in turn sell these goods at world market prices. Therefore, when the fixed internal prices is higher than the payment received on the market, a subsidy to the DIA is necessary.
- b. East Germany knowingly makes sales at a loss for several reasons. In some instances, especially in trading with Western countries, retention of a particular market is important enough to warrant at least temporary losses. This market may be important because of a critical need for its current exports or because it may promise to be a lucrative business in the future. In trade with the Bloc, the political power of the trading partner may be great enough to force an uneconomical deal on the East Germans.

c. [redacted]

5. Hidden Reparations

a. Price Differentials

[redacted] when a foreign market price for the export of a particular commodity has been set, the USSR pays the same price. However, in those cases where the Soviet Union has a monopoly on imports, price can be arranged in an arbitrary fashion. Although not specifically stated, it is presumed that, with proper coordination,

CONFIDENTIAL/NOFORN

the same could be effected in regard to any commodity whose export is restricted to the Bloc as a whole. In trade of this sort, East Germany finds itself at a disadvantage because of her inferior position vis-a-vis other Bloc countries.

[] the term "hidden reparations" need not be restricted to forced deals resulting in immediate financial loss. If a country is forced to export a commodity that is badly needed at home or the export of which, for any other reason, results in a greater disadvantage than advantage, then the transaction can be considered to involve "hidden reparations". Specific mention was made of rolling stock and locomotives in this regard.

25X1

6. Underfulfillment of 1954 Trade Plan

- a. The main reason for the failure of the Ministry for Machine Construction to underfulfill its 1954 export plan was lack of raw materials. The products for which foreign demand was high could not be sufficiently mass-produced, largely because of the Ministry for Heavy Industry's failure to supply agreed upon amounts of component materials.
- b. On the other hand, the Ministry for Machine Construction failed to sell large quantities of produced items. In those items for which demand was not so high, the raw materials were available but the technical standards were such as to make them unacceptable to both the domestic and foreign markets.

25X1

7. Transportation

- a. [] the poor condition of the locomotives and rolling stock, particularly "the rundown cars in which the East German people must ride". [] the continued high exports of railroad equipment to the Bloc, particularly to the USSR and Poland, befuddle many East Germans.

25X1

8. Shipbuilding: The Problem of Worker Lay-offs

- a. East German shipyards received a substantial portion of their initial labor supply from Saxony during 1948-1949. These workers had previously been employed in aircraft industries in that area. Some had also come from agricultural enterprises in South Germany. The exodus of workers from Saxony factories to the shipyards during 1948-1949 was spurred by Soviet dismantlings of enterprises in the Chemnitz and Dresden areas.
- b. [] the current labor force of the DDR shipyards could be reduced 50 percent. He claims that the new program "Industrial Workers for Agriculture" is not meeting with success. This is due to two factors; the requirement that shipyard managers must find jobs for released workers; the general fear of worker unrest and sabotage in case of forced transfers of shipyard workers to agriculture.⁴

25X1

25X1

[] plant managers were powerless to lay off workers. The worker's constitutional right to his job is not violated in the DDR--not because this is provided for in the Constitution, but because there is a paralyzing fear among East German officials and the SED of provoking worker unrest which may generate another June 17th. If an enterprise is faced with high profitability and productivity plans and at the same time (the usual case) is confronted with a result with the need to lay off workers, the worker must be offered an equivalent job in pay and stature and even this the worker is not required to accept unless he chooses. The result is over-employment such as at Warnow-Werft, Warnemunde, at which yard the employment figure was 9,000, whereas the production plan could have been fulfilled with half that number. Thus it can be seen that, despite current heavy pressure for higher profits and productivity, state enterprises and the SED units are afraid of offending the workers and are thus afraid of tackling the work norm problem. The resolution of this paradox in the Ministry of Machine Construction is to increase capital investment which would permit full use of underemployed labor, thus bringing about a commitment

25X1

CONFIDENTIAL/NOFORN

rise in productivity. The problem of course is that the current lack of profitability inhibits, in fact prohibits, capital accumulation with the result that the DDR appeals to the Soviets for assistance.

[] an interesting example [] at the Rostock Diesel Motor Works. In this case, the manager of the plant finally succeeded in January in persuading a group of workers to accept higher work norms. The arrangement was, however, immediately cancelled by the plant Party Secretary out of fear of the reaction of the other workers. Ziller had spoken at this particular plant last fall during the election campaigning and had made the statement that no increase in work norms would take place. This statement is remembered by the workers.

c. Low work norms and high salaries exist primarily in shipyards working on reparations and vessels destined for utilization by the Sea Police.

d. [] many shipyards were required to maintain uneconomical departments. Neptun-Werft, Rostock, was maintaining a section devoted exclusively to new construction that was considered out of proportion with the section of the yard devoted to repairs and equipping. The manager of the yard suggested to the Main Administration for Shipbuilding that the yard specialize in assembling ship parts up to a [] point determined by yard economy. The exact point was to be determined by the yard's profitability plan. The manager suggested that his yard be permitted to export unfinished ships for assembly in the receiving countries (importing countries). The plan was considered unworkable by the Main Administration for Shipbuilding since the receiving countries for the most part were in an equally unsuitable position to finish the installations of ships. In this connection, [] the delivery of [] unfitted fireboats to Bulgaria.

F. Interzonal and Intersector Controls

1. [] the increase in controls on travel between Berlin and the East Zone were even more apparent from the end of 1954 to April 1955 than was the case in intersector travel. In his weekly travels between Rostock and Berlin he was able to see the increasing vigilance in checks of identification documents and luggage.

G. Future Planning Within the Ministry for Machine Construction

1. Investments

a. For the last year of the Second Five-Year Plan, i.e., 1960, [] investments in a tentative proposal were to be increased 75 percent over the first year, 1956. The productivity increase for these same years was supposed to be 50 percent.

b. Proposals for increased investments for the Ministry for Machine Construction were forwarded to the Soviets by the Ministry during 1954 (for the Second Five-Year Plan). In years prior to 1954, similar proposals had been made, but they were invariably rejected. [] the proposals this year were going to be discussed in Moscow. The supporter of the proposals at any such Moscow meeting will probably be Beelitz, chief of the Central Department for Planning and Plan Coordination in the Ministry for Machine Construction. It is possible that Beelitz has already made this trip []

by Rau to make preparations for an immediate departure as early as March 1955. Beelitz had been ordered

CONFIDENTIAL/NOFORN

2. New Control Form for Financial Reporting

- a. A new control form was introduced last year. (Actually, it had been tried the year before). This is the so-called FKI form which gives a running summary of the Warenproduktion, the Umsatz (turnover), Gewinn (profit), Umsatz und Gewerkschaftsteuer (turnover and trade taxes) and Nettogewinn (net profit) among others. Since the form gives a summary of results up to any given month in the year and also indicates the expected quantities for the succeeding month, the November FKI report can be used for an estimate of the total yearly fulfillment. [redacted] the form was not used to best advantage in this past year, but that it appears that next year it will make planning easier. If one has, in addition to the FKI form, the sheet of Kontrollziffern, one could just about work up the succeeding year's plan.

25X1

[redacted] the plant estimates of fulfillment for the next month which are reported on this form are generally surprisingly accurate.

25X1

3. Training of Production Workers

- a. The training of young people is to be cut back at some point in the future, and probably quite soon. The directive is that training is to be matched more closely to production and the large number of trainees which come to the Ministry will be reduced.

25X1

4. Changes in Basic Planning Features

- a. [redacted] the "contract system", whereby East German firms must have not only a plan to manufacture a certain set of items, but also a contract with a buyer for sale of the items produced. [redacted] East Germany, in contrast to the Soviet Union, has recently been based on a private enterprise system and small firms still form a considerable share of the total economy. (Within the field of machine production, [redacted] 30 percent of the products is produced by private firms.) With such a base, it becomes uneconomic to plan too far; beyond a certain point of planning, the returns are not as great as the cost of setting up and administering a plan. [redacted] the planning authorities, be they Soviet or German, realize that this point may have already been reached is reflected in the fact that recently it has been decreed that future planning will be based on a 60 major commodity list rather than the former 200-commodity list.

25X1

25X1

25X1

25X1

- b. [redacted] why the Soviets had allowed the new "Quarterly Production System" to arise. Under this system, individual factories have the option of ignoring the division into quarters of the annual plan, although they must fulfill the total plan for the year. [redacted] this is likely to promote greater economic anarchy than now exists simply because, under the Communist system, it is not possible to reduce the extent and detail of top control without substituting some other governing force, such as completely free play of the market. In the absence of anything else, strict centralized control in all details is necessary. At any rate, this individuality permitted is more likely than ever to increase in the future a "piling-up" at the end of the year and is moreover likely to cause the DIA's and DEZ's considerable difficulty in fulfilling firm contracts which they have for delivery of goods.

25X1

25X1

25X1

H. Economic Stimulants

1. In addition to this new "Quarterly Production System" with its concomitant manager discretion features, another powerful stimulant is already operating in East Germany. If a plant manager can get together enough materials and other necessary resources to produce an item not previously mentioned in his plant plan and can, furthermore, get a sales contract with some agency for that item, he can apply [redacted] for "Sonderkredite"

25X1

CONFIDENTIAL/NOFORN

25X1

- 17 -

25X1

(Special Credit). This he can do even if it means that his scheduled plant production suffers (excepting only the 60-control commodities previously referred to). This is in distinct contradiction to the system of a planned economy, but it does encourage the plant manager to use all of the resources which are available in his plant. [redacted] 25X1

[redacted] it is even possible for the plant manager to offset poor production records in one commodity which was planned initially by such special production of unplanned products. For example, suppose that a plant was initially scheduled, under plan, to manufacture 10,000 radio receivers at 100 DME each. With the material on hand, the plant manager might, if he thought he could arrange for their sale, produce 500 television receivers at 1,000 DME each and, once having sold them, not only receive the money for them, but also use this production to represent the production of 5,000 radio receivers, leaving in his production plan only 5,000 receivers still to account for. He would have to apply for permission to change the plan, but could receive Special Credit for them as soon as the television receivers were sold.

I. Questions Related to Other Governmental Organizations

1. [redacted] the functions of the Central Commission for State Control (CKK), formerly headed by Fritz Lange, and the Control Department of the Council of Ministers, headed by Peter Korn. [redacted] 25X1
 [redacted] the CKK has very strong economic policing powers extending to the Minister-President level. It was called in to the picture only on complaint of some party or when allegations are made against some person or organization who might be guilty of maladministration or otherwise damaging the national economy. Complaints could be entered by anyone for any reason. The CKK did not originate any investigations on its own initiative. Its agents were generally very young men. [redacted] 25X1
 [redacted] when plants under the Ministry for Machine Construction complained to the CKK that the Ministry was not providing cash in the amounts planned. The plants called the CKK and a 20 or 22-year-old youth arrived [redacted] 25X1
 [redacted] to investigate. When he was ignored [redacted] the agent complained directly to Rau who ordered personnel [redacted] 25X1
 [redacted] to provide the agent with the information desired. When it was made clear to the agent that the Ministry's finance plan was not being fulfilled because of a shortage of funds through nobody's fault but the Council of Ministers who adopted the preposterous plan of the Ministry of Finance, the CKK agent returned to his office and no further action was taken.
2. The Control Department of the Council of Ministers had the responsibility of seeing to it that decisions of the Council of Ministers were carried out. Thus, this body was continuously investigating and checking on its own initiative. As an example, [redacted] the activities of Seelig (fnu) [redacted] 25X1
 [redacted] employed as a Deputy Chief of the Main Administration for Transport Machine Building in the Ministry for Machine Construction. Seelig was transferred to the Control Department of the Council of Ministers where, in February 1955, he was particularly interested in affairs of the Ministry for Machine Construction, and in this capacity attended all meetings of the Collegium of the Ministry as a check on implementation of decisions of the Council of Ministers. 25X1
3. [redacted]

J. HV-18 (Main Administration Number 18), Pirna

25X1

1. [redacted]
 Two plants, [redacted] had sections of their physical assets actually transferred to this organization, otherwise referred to as HV (Hauptverwaltung--Main Administration) Pirna, or "VFI" (Verwaltung fuer Industriebedarf--Administration for Industrial Requirements). [redacted]

CONFIDENTIAL/NOFORN

25X1

25X1

25X1

CONFIDENTIAL/NOFORN

25X1

- 18 -

25X1

the heads of the financial departments of the Main Administration for Chemical and Food Industries and the Main Administration for Fine Mechanics and Optics [redacted] inquired how, on their balance sheets, they should treat the assets which they had been required to release to the VFI. They plants involved were a chemical equipment plant in Schkeuditz [redacted] and a fine mechanics and optics plant [redacted] in Chemnitz.

25X1

25X1

[redacted] one quarter or one third of the total capacity of the plants involved was transferred to the VFI. Neither of the men [redacted] had any idea about the future plans for these sections of the plants.

25X1

2. [redacted] the VFI was set up and operating at a time earlier than March. [redacted] it was set up at least as early as October 1954 and was certainly operating before January 1955. In late January or early February, the Ministry for Machine Construction loaned to the HV 18 a sum of 3,000,000 DEM. The loan was requested for three days, was outstanding for 14 days, but was then settled by the Financial Department of the Politbuero.

25X1

1. [redacted] Comment: Not further identified [redacted], but undoubtedly Willi Rumpf, State Secretary for Coordination of the Economy in the Ministry for Finance.

25X1

2. [redacted] Comment: This term is always expressed in Abgabepreisen, or sales prices, since Warenproduktion is sales production.

25X1

3. [redacted] Comment: In general the "Materialeinsatzschlüssel"--the amount of material necessary to build a certain product--were wrong, and multiplying the factor times the products planned would give somewhat more material than was actually required. This additional amount, however, would by no means have covered the extra amounts of product planned. Furthermore, materials delivered during the first quarter of 1954 did not match the planned deliveries, thus causing the very wide gap which developed.

4.

25X1

5. [redacted] Comment. Messwert is a theoretical price established by the Statistisches Zentralamt, based on the various prices of all goods and is used in setting up the Brutto-Produktionspläne in the Allgemeines Warenverzeichnis in East Germany.

6. [redacted] Comment. Possibly Grossnationalproduktion.

7. [redacted] Comment. The calculations are submitted as received.

25X1